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E-commerce in financial services – the story so far

THE MARKET PLACE RECENTLY HAS BEEN REFLECTING ON THE BUSINESS CASE FOR INTERNET BANKING. THIS STEMS FROM THE GENERAL FALLOUT OF THE DOT-COM SECTOR, AS WELL AS THE FAILURE OF SOME STAND ALONE INTERNET BANKS TO DELIVER PROMISED RESULTS.

The issue raises some wider questions about the internet and e-commerce initiatives being undertaken by banks. The time has come to ask questions about the delivery of the benefits. For example, where are the cost savings and can they be measured? Where is the revenue generation and future earning capacity? And how is profit going to be delivered by the web and e-commerce initiatives?

At first sight, these questions seem to be straightforward. However, as is the case when you mix technology and banking together, complexities always result. In order to assess the issues that are posed by the questions, we need to have an understanding how the web and the internet is being used by banks, both internally and for customers.

Another issue is that the technology is in early development phase, while the business goals are long term. This is certainly the case with the many banks which want to "e-enable" their processes through their entire organisation.

Flocking to the net

Internet banking and web enablement is well over five years old in many parts of the world. Australian banks have aggressively implemented the front end of the web, internet banking and other on line services. The number of customers they have attracted to internet banking has been outstanding, with all the major banks having more than 500,000 registered net customers.

According to IBM's Michael Aaron, who is responsible for thought leadership and innovation projects, these numbers constitute world's best practice adoption of the channel. But while the numbers are impressive, recent analytical reports suggest that profitability and revenue generation are still a long way off.

However, the impact of the web and related technology on banks needs to be assessed beyond just internet banking. Banks have

endeavoured to stretch e-enablement and the internet to a wide gamut of their operations. The processes are still evolving and, as a result, it's hard to crunch numbers on cost savings or revenue gains.

In the meantime, the banks are claiming benefits that cannot be measured at this stage and are focusing on creating infrastructure that will deliver long-term benefits.

Nevertheless, if this investment in web enablement and e-commerce is going to continue, it ultimately must be able to deliver benefits to shareholders through cost savings, revenue generation and, of course, profits.

E-commerce beyond internet banking

The first step is to understand that the assessment of e-commerce in the industry needs to go beyond just looking at internet banking. This gets back to web enablement, the use of the internet and related technologies at every level of a bank's operations.

The National Australia Bank's Rob Craig, General Manager Australian Financial Services Products and Process Management, says e-commerce is focused on using internet protocol technology and practices to streamline processes that can support bankers and customers.

This then raises issues of where – and how – the technology can create efficiencies and cost savings internally. Measurement issues include how the web interacts with customers over product lines and with other channels, what products sell successfully on their own and the constraints involved. A complicated set of issues starts to emerge.

All major banks are implementing different forms of web enablement and e-commerce initiatives which seek to transform their organisations. Banks are using the web and internet based

strategies internally to create greater communication efficiencies, information/research improvement and on line education. For some, it is a critical underpinning of their future strategy.

The ANZ Bank has gone further than any other bank in embarking on such a strategy, using the motto "an e-bank with a human face". E-commerce is seen as underpinning the group's entire overall future strategy.

The ANZ's Mike Irvine, General Manager Business E-Commerce, says that one of the achievements has been the rollout of an internet protocol network, allowing the bank to reduce the cost of communication (no specific figures mentioned). "It makes it easier to deliver new services off that platform," he says. "The development of (this) intranet, called Max, has become a key vehicle for us in engaging in process automation, such as managing leave."

Another initiative is training, delivered through an initiative called "e-train over Max". Staff can even enrol in an "e-MBA" developed with Charles Sturt University.

The bank has also provided subsidised PC and internet access for staff at home. "We have also encouraged staff to become IT and internet literate with a PC at home through the bank's subsidised initiative," he says.

"The takeup has been enormous ... the biggest benefit has been to make staff more receptive and adaptable to the changes that we need to continue with. This issue is about change management, how we equip our own people to be active in the change, but also drive it as well."

These initiatives help to underpin the bank's "e-bank with a human face" philosophy and is a vital part of developing the bank's concept of splitting its operations into autonomous business units. E-enablement provides a flexible and cheaper common infrastructure for these units.

"While we have the separate business units, we need to have a common web enabled platform," Irvine says. But he stresses the bank is on the first leg of a long journey: "we are talking about a total transformation of every aspect of the business."

Key achievements and measuring the results

The issue of how e-commerce has benefited bank customers – and how to measure the results – is highlighted by the National Australia Bank's relatively late start in the internet arena.

According to the National's Rob Craig and Blair Vernon, Head of Internet and E Solutions, one of the most important milestones for the bank was getting a presence on the internet which has lowered the cost of communication.

"As soon as you can put information about your products and services on the web, you reduce communication costs with customers," they say. "But we have not yet been able to measure it in any exact form. What you have to aim for at this stage is a cost neutral position."

The overall strategy is to extract costs and drive revenues, which requires ongoing investment.

"As the bank continues to build its customer relationship management capability, we are tracking where leads start, from what people and in what channels. Once that is done, the bank will be able to value more explicitly the cost value analysis."

Vernon and Blair note that one problem is that people gather a lot of information using the web, but prefer the phone or face-to-face contact for the actual purchase.

"The infrastructure that we have had in the bank has not been able to support the understanding of that to date, whereas going forward we will be able to make that value assessment," they say.

The second key achievement for the National is presentation of customer information.

"Some people are visual and others like to hear it, but when it comes to numbers most people like to have them written down," say Vernon and Blair.

"That is where the internet is so valuable. One of the most used functions on the internet platform is around customer account information."

The other more recent key milestone for the National is the broader development of on line offerings, such as e-procurement and associated benefits. The web and related technology is helping to reduce some of the complexities of customer management and this allows for efficiency gains. The single view of the customer activities gained helps the bank to process loans in a "straight-through" manner.

The ability to change a web page very quickly is highly important, according to Blair and Vernon. The key is the interaction with the customer and using the web to improve this.

Blair and Vernon admit that, at this stage, the advent of e-commerce probably has not yet reduced the bank's overall costs.


"We are going through a learning curve," they say. "Internet protocol enabled technology is only a five year story. What we have all been focused on is rapid learning and the effect of different technologies on customers."

"We are using that learning as a foundation for the next five to ten years. But what we also see today is the infrastructure and the capacity to do things we could not have done three years ago."

For the National, one of the big issues is to make sure that web enablement it is well engineered into the organisation. At the same time, there is a number of quick wins that can be revenue generating, such as selling credit cards over the internet.

The bank has moved to a model based on straight through processing, enabling it to get back to customers a mere 27 seconds after the customer lodges an application.

On its own, the on line medium is a capable revenue producer for the National in some product categories. Across the board,



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this revenue creation opportunity jumps enormously with the addition of voice interaction with the customer.

According to Blair and Vernon: "That is a key driver of a lot of our strategy, which is about the integration of online offerings and our web experience with our other channels, for example, outlet locations, branches and contact centres. Having the ability to reach those people to contact you and follow up is really critical."

For the National, the priority is building capability to measure the cost of – and revenue derived – from products sold on line. According to Blair and Vernon, the issue is complicated because there are groups of customers who may use on line facilities to buy a product, but a bigger majority will ring the contact centre to enquire about a product and then apply on line.

A US comparison

According to IBM senior consulting architect Lisa Noon, US banks have struggled to globalise over the last 15 to 20 years, but the advent of the internet has greatly assisted the process.

"The internet is easy and cost effective to connect – it is almost the great connector," she says.

"Banks can connect product lines and financials using the internet to mobile offices around the globe. It also gives banks a way to offer collaborative products, which before the internet would have been difficult for a bank to achieve."

Noon points out that US-headquartered banks used to be hampered by regulations which prevented banks from offering an overlap of banking, insurance and broking products. With these laws scrapped, banks can offer customers add-ons such as insurance with a home loan, or warranties on purchases with credit cards.

"Before the internet, you had to go through tightly coupled integration methods," says Noon. "Now, with the internet, you have a third party messaging technology so banks can offer those combined product lines through electronic channels to buyers."

"You can also manufacture those products quite easily using open standards and inexpensive connection technology. This is one of the key offerings that the internet is offering to improve the business case for banks."

In addition, the internet offers banks with global customers a very easy way to gather information from other "back end" institutions and present it to the customer in a single format. An interesting global picture of the bank/customer relationship then emerges.

Lisa Noon says that almost of the US banks' revenues are derived from payment mechanisms. "If banks want that trend to continue, they will need to look for new ways to offer electronic payment mechanisms," she says.

"The internet is an obvious alternative, for example, wireless payment mechanisms and increases in bill pay based retail payment mechanisms."

In Noon's view, a growing number of US banks are seeing cost savings from the automation of processes using web based technology. "The internet offers banks time to market, alongside cost improvements," she says. "That is fairly different from the technology ten years ago. There were very few techniques for programming models that supported significant re-use."

US banks have also saved costs by shifting demand for inquiry type transactions, or information requests, from branches and phone banking to the web. But, according to Noon, achieving further real cost savings will involve closing branches, which, unlike in Australia, has not happened significantly to date.

How to cut costs and increase revenues

IBM's Michael Aaron notes that, unlike the US, Australia has a saturated banking market. In order to raise revenue and lower unit costs using modern web based technologies, banks have to focus on increasing their share of each customer's wallet by selling more products. In order to do this, banks will need to invent new products and services which generate fee income rather than rely on traditional interest income.

"Australia is an electronic country for payments, but banks do not make as much from payments as they do in the US. Credit products are the mainstay of profits for banks in Australia," Aaron says.

"One of the real cost problems is that we are increasing the number of channels and transactions, but no channel disappears. Thus, are you really getting cost savings or are you getting additional costs?"

"Part of the answer will lie with banks continuing to rationalise branches and being more effective with their channel management strategy."

According to Aaron, other real savings will come from back-end processing. The critical issues here are how the bank connects its legacy systems more effectively, how it connects to external business partners and how it manages to cross all divisions to get real value propositions.

A likely future development in process integration will be a cost effective model in which a bank develops a single origination process for all credit products, but with separate credit scoring procedures. Effectively the rest of the process is identical.

How non-banks fare with e-commerce

An interesting issue for banks is how other companies have implemented e-commerce successfully. Many large global companies – including General Electric, Ford, General Motors and IBM – are using e-commerce very effectively to reduce costs and generate new revenues.

In the case of IBM, the global computer giant has pushed e-commerce extensively through its IBM .com arm. It also uses other models, built around modifying employee and customer behaviour to use these electronic channels.

The results to date are very impressive. In 1998 IBM derived \$US3 billion of revenue from e-commerce, with this figure growing to \$US23 billion in 2000. In the first quarter of 2001 the company derived \$US5.7 billion from this source.

Internal cost savings are also impressive: \$US14 million in 1998 and \$US99 million in 2000, with a further US\$21 million saved from web sites through self service technical support.

IBM has also saved costs by providing training and education on line. In 1998, 25 per cent of its programs were delivered on line, growing to 36 per cent in 2000.

Summary

The banks are still assessing the impact of web based technologies and other e-commerce initiatives. Given the complexities of how other technologies and strategies are being implemented, measurement techniques are still evolving.

Real benefits are emerging, but banks will need to continue to assess the results with a bottom line focus and look at other strategies to gain the full benefits of the internet and on line offerings to customers. ■

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